July 23, 2002

TO: Al Hyde

FROM: Howard W. Bell, Jr.

RE: Background on the Pell Grant Best Practices Research Project

The following information provides you with background information on the Pell Best Practices project and is not intended for any other purpose or for further distribution.

The goal of the Pell Best Practices project is to identify ways to reduce award errors in the Pell Grant Program in accordance with the strategic goals of the Department of Education, more specifically the office of Federal Student Aid (FSA). Through this research, FSA is endeavoring to identify and adapt the best practices used by private financial institutions, state and federal government agencies, schools, and other entities to enhance the ability of FSA to prevent and detect errors in the grant process.

Currently FSA uses a statistical model to identify applicant groups with the highest probability of errors that will change the amount of the Pell Grant award. The identified applicants represent around 30% of all FSA applicants. The school that an identified applicant attends is required to verify certain key data elements from the FAFSA form of the applicant. Various types of source documentation are used to verify reported information. The key data elements examined when an applicant is selected for verification are 1) household size; 2) number enrolled in college; 3) Adjusted Gross Income; 4) U.S. income tax paid; and 5) certain untaxed income and benefits. Among the forms of untaxed income and benefits examined are: 1) Social Security benefits; 2) child support; 3) IRA/Keogh deductions; 4) foreign income exclusions; 5) earned income credit; and 6) interest on tax-free bonds.

FSA is engaged in the Best Practices research to determine if different approaches and/or data variables can be used to improve its ability to prevent and/or detect award errors.

To date the Best Practices research has identified a handful of principles worth further examination. One such principle is that people tend to be more precise about the information they supply if they know an independent third party also reports on it. Based on this principle, FSA is investigating databases that it might access to verify the above named data elements. Another principle is that schools that target aspects of their verification efforts to account for the unique attributes of their student population sometimes verify variables other than the above named ones. For example, some schools bordering other states verify residency status while some schools with a high immigrant population expend additional efforts to ensure applicants understand the meaning of questions about the highest level of education attained.

Hence, in contacting you, FSA hopes to identify: 1) principles for preventing and/or detecting errors; 2) specific practices for preventing errors; and 3) specific practices for detecting errors and verifying the information contained in applications.